



Commonwealth of Kentucky
Office of the Governor

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State Budget Address
Tuesday, Jan. 17, 2012
Gov. Steve Beshear

Mr. President, Mr. Speaker, distinguished members of the Kentucky General Assembly, Lieutenant Governor Abramson, other Constitutional officers, honorable members of the Court of Justice, honored guests, including Kentucky's First Lady and my fellow Kentuckians ...

Tonight I present my proposed state budget for the biennium that begins July 1.

It's a budget that – to be candid – is inadequate for the needs of our people.

The historic recession of the last four years has inflicted deep hardship on our families.

And we continue to address longstanding fundamental weaknesses in the health and education of our people that have kept Kentucky at a persistent disadvantage.

We should be making substantial investments in our physical and intellectual infrastructure to bring transformational change to our state.

This budget does not allow us to do enough of that.

Not like we should.

Instead, it requires painful cuts that may well force us to retreat on some core services ... and that risk jeopardizing progress we've made over decades in education.

Given our current resources, these cuts are unavoidable.

Ten times in four years we've come together to fill holes in Kentucky's budget.

Each time, we've had two goals:

To reduce the suffering of our people ...

And to preserve our top priorities – education, health care for the most vulnerable, job creation and public safety.

To meet these goals, we reduced the size of government ... identified and eliminated waste ... applied federal stimulus dollars ... restructured debt ... sold surplus property ... deferred payments ... transferred money from other funds ... reduced energy costs in our buildings ... furloughed workers ... created a Smart Government Initiative to reduce costs in government's daily operations ... and made fundamental changes in major cost areas like Medicaid, Corrections, public pensions and employee health insurance.

We even sold planes on e-Bay.

In short, to protect our people we have used *every* trick in our bag, patched holes with *every* bandage we could find and reached for *every* helping hand extended in our direction.

But my friends, the major efficiencies have been found, and the tricks and Band-aids are about used up.

Revenues are improving, but they are not improving fast enough to make up the loss of federal stimulus money and to cover growth in the costs of Medicaid, health insurance, retirement benefits and debt service.

And so the day of reckoning has come ... because with this budget, we begin to carve into some of our most critical services.

Now, my duty as governor is to propose a responsible budget.

And I am doing that.

- This budget is balanced.

- It continues to reduce the cost of government.
- And it shrinks our reliance on one-time funds, improving the so-called structural balance of the budget, meaning spending only what we take in each year.

But that's not enough ... and I refuse to simply accept the status quo.

So while some services will continue to be cut back, I am recommending ways to invest in the long-term needs of our people by chipping away at those fundamental weaknesses that have hurt us for generations.

How?

This budget:

- Expands access to early childhood education.
- It better protects our vulnerable populations – from the youngest to the oldest – by reducing caseloads for beleaguered social workers battling child abuse and neglect, and by targeting those who abuse our elderly.
- It funds for the first time a colon cancer screening program created four years ago ... and it expands substance-abuse treatment within the Medicaid program.
- And it adds muscle and intensity to our response to the prescription drug abuse which is decimating our communities.

Given what we have to work with, these will be major accomplishments.

Now, what are the keys to making these investments and making this budget balance?

There are five:

One, we're seeing a modest growth in revenues that reflects signs of recovery in our economy.

Experts estimate that growth at 2.4 percent in Fiscal Year '13 and 3 percent in Fiscal Year '14.

Two, we're employing a handful of fund transfers, like those tapped in every budget cycle.

Three, we're using part of the reserves we built up at the end of Fiscal Year '11.

Four, we're aggressively pursuing people who owe taxes or try to avoid paying them.

As part of a new emphasis on compliance, we will hold Kentucky's first tax amnesty program in 10 years.

Forty states have recently done something similar, and we expect to net \$61 million.

And five, we're balancing Kentucky's budget by making deep cuts in most state agencies.

Most departments and cabinets – including the Governor's Office – will be cut 8.4 percent in Fiscal Year '13 as compared to current Fiscal Year '12 numbers.

In year two, Fiscal Year '14, they will be straight-lined from the first year of the biennium.

Now remember, these cuts are on top of cumulative cuts of 25 percent to 30 percent made over the previous four years.

In these agencies, the fat has long been burned away.

Now we're cutting muscle and bone.

Thus the impact of additional cuts will include things like delays in service ... loss of federal funds ... possible facility closures ... and even possible lay-offs.

However, these cuts will not be made across the board.

Some areas – like classroom funding and Corrections – will be exempt.

Other areas – like our universities and law enforcement agencies – will see lesser cuts.

To show you what I mean, and to unveil other features of this budget, let me detail some of the areas:

In the area of K-12 education, which must remain our highest priority:

My proposal preserves SEEK funding at the same level in Fiscal Years '13 and '14 as we are now spending in Fiscal Year '12.

I have protected SEEK through 10 rounds of budget cuts, and I will continue to do so.

We cannot take significant steps backward in funding classroom learning.

But maintaining funding is not a step forward.

It's not even running in place.

Measured in per-pupil funding, this is a slip backward to 2008 levels.

That's why – if revenues come in better than projected, and we have extra money – I will move to restore SEEK to 2012 per-pupil funding levels ... because our children, our teachers and our state deserve better.

Last week, in Education Week's annual Quality Counts report – which offers a highly respected assessment of public education – Kentucky ranked 14th among the 50 states in overall assessment of key education indicators.

Folks, that's a jump of 20 spots in one year.

And it occurred primarily because of investment and policy direction in our accountability system, teacher training, college/career readiness and stronger academic standards.

But with this budget, we begin putting that progress in jeopardy – the best policy in the world won't matter if we retreat on funding our basic instruction.

This budget also includes \$100 million in school facility bonds for improvements to deteriorating buildings.

Now, a recent assessment of 485 of Kentucky's school facilities identified the need to spend \$3.7 billion to repair or improve those buildings.

Obviously, \$100 million won't cover that need. But it's a start.

This budget also fully funds employer contributions for the Kentucky Teachers' Retirement System.

And finally, I am proposing to make preschool available to more 4 year olds by expanding eligibility in Fiscal Year '14 to families whose income is at 160 percent or below of the poverty level, up from the current level of 150 percent.

This \$15 million investment will put 4,430 more Kentucky children in preschool.

Why do this?

It's obvious.

Too many Kentucky children don't get off to a good start in school. They start out behind and they never catch up.

These are the kids who are more likely to drop out of school and to go on to lead lives not filled with productivity and promise but defined by problems – many of which end up consuming state resources.

Folks, this is a cycle.

We have to break it.

Over the last four years, we've been improving the health and minds of our youngest children through our KCHIP, dental and kindergarten readiness initiatives.

Expanding preschool eligibility is another step, one that will directly improve the futures of 4,430 Kentucky children ... children who will hit the ground running in kindergarten, who are more likely to be engaged throughout their school careers and become productive adults.

By the end of my term, I intend to make preschool available to all 4 year olds in families whose income is 200 percent or less of the poverty level.

This will help us to reach 3,920 additional children.

Researchers confirm that every dollar spent on pre-K programs carries a return on investment that ranges from \$2 to \$17.

In the area of higher education:

While most agencies are being cut 8.4 percent, my proposal reduces base funding to higher education by 6.4 percent.

It maintains funding for student financial aid programs, including KEES, need-based programs and our National Guard Tuition Assistance Program.

It authorizes \$25 million in General Fund bonds to maintain and preserve buildings on our campuses.

This budget includes no money for new General Fund capital projects, but it does authorize \$451 million in agency bonds for priority projects where institutions have identified revenue streams to pay off debt service.

It also authorizes the University of Kentucky to proceed with Phase I of the overhaul of

its residence halls. UK needs approval to secure third-party financing as it partners with a private company to build 9,000 beds over the next several years.

Phase I is a \$175 million project. It's a demonstration that even in these tough times, the public and private sectors can unite to address needs and create jobs.

Now, finally, you're aware of a proposal to add the University of Pikeville to the state higher education system.

I have directed the hiring of a consultant to do a thoughtful and thorough evaluation of this issue, whose complexity is great.

Should the General Assembly decide to move forward on this proposal, I have left unallocated a portion of our multi-county coal severance fund.

In the area of health and family services:

My proposal funds our Medicaid obligations without cutting services or kicking families off the program.

One in five Kentuckians is now on Medicaid.

At the depths of the recession, more than 3,000 Kentuckians a month were being added to the program. Even though that rate of growth has dropped by about half, the Medicaid rolls are still expanding.

This growing enrollment – along with rising health-care costs – creates one of the biggest stresses on our budget.

We are mitigating that stress by continuing to find efficiencies and implement cost-containment measures – and by moving to a managed-care delivery model.

That new model alone will reduce the cost of Medicaid to the General Fund by \$294 million over this biennium and \$372 million over the 32-month contract period.

My proposal also provides, for the first time, out-patient substance-abuse treatment in the Medicaid program for both adults and adolescents.

Forty-three states fund community-based substance-abuse treatment through Medicaid.

Kentucky does not.

My proposal funds treatment for 4,500 people in the first year and an additional 1,300 people in the second year.

Join with me in taking another serious step toward fighting substance abuse in the Commonwealth.

We are also addressing pressing needs in our Department for Community Based Services.

This budget not only exempts this department from the 8.4 percent cuts, it *increases* funding by nearly \$21 million to hire more social workers and support staff.

We're looking to reduce dangerously high caseloads from an average of 20 per case worker to an average of 18 per worker, and from 1,000 on average to 800 for family support staff.

Our social workers and support staff perform at high levels in a very difficult job, but there are simply too few of them.

This proposal also provides \$1 million over the biennium – to be matched by \$1 million from a private foundation – for colon cancer screening for some 4,000 uninsured Kentuckians.

Kentucky's incidence of this disease is the highest in the nation – and about 25 percent higher than the national average.

And while this type of cancer can be costly to treat, it is highly preventable with screening.

Four years ago the General Assembly created the screening program but funding was not available.

Implementing this screening will directly save both lives and money.

This budget also exempts our mental health programs from cuts, given the fragile safety net that protects this extremely vulnerable population. It also brings on line the new Eastern State Hospital.

And finally, as a way to guide hiring decisions by nursing homes and other agencies, it funds the creation of a registry of people who have abused or neglected adults.

The Adult Abuse Registry was proposed in the 2011 session as part of a package of bills we called the Safeguarding Our Seniors program. Much of the initiative passed, but this provision failed for lack of funding.

Now that funding is available in this budget, I urge the General Assembly to pass this legislation to protect our parents and grandparents from those who would prey on them.

In the area of public safety and justice:

My proposal seeks to shield our law enforcement agencies from the worst of the budget pain by limiting their cuts to 2.2 percent, including our State Police, prosecutors and Juvenile Justice system.

It sets aside \$2 million in bond funds to make improvements to the new State Police training facility we recently created out of a prison.

This budget exempts the Department of Public Advocacy from cuts, given the sheer number of indigent clients they serve.

It continues to implement House Bill 463 – the Corrections Reform bill passed last year – in a variety of ways, including hiring additional pre-trial and parole officers to increase supervision of our inmates as they re-enter society.

It re-invests the savings from a reduced prison population in areas like expanded substance-abuse treatment programs.

It also begins phasing out our reliance on private prison contracts, a move that could help our county jails.

And finally, this budget provides funds to more aggressively address one of the biggest threats to the health, welfare, safety and productivity of our families – the abuse of prescription drugs.

This scourge is not only exacting a huge emotional and economic toll, it's also literally killing our people.

In our state alone, 82 people die every month from drug overdoses.

During this session you will consider a wide-ranging package of legislation on this issue, including improvements to KASPER, our electronic monitoring system.

My budget includes money to enhance KASPER to accommodate mandatory participation by our providers, as well as to increase the sharing of data with other states.

We must not only pass stronger measures to fight this abuse, we must fund those measures.

In the area of economic development:

My proposal continues to help our economy by reinvesting in programs that retain and create jobs, including \$20 million in bonds for our high-tech grant and loan program. This nurtures our cutting-edge companies, especially our small companies, who create many of our jobs.

I also urge the passage of legislation creating tax credits for "angel investors," a way of encouraging individual private investment in new companies.

Regarding our military veterans:

My proposal protects this area from cuts.

It also sets aside bonds for construction of a fourth state veterans' nursing home in Radcliff, and provides operating funds to open the new wing at the Western Kentucky Veterans Center in Hanson.

It also reauthorizes a fifth veterans' cemetery in Leslie County, putting us closer to our goal of having a veterans' cemetery within 75 miles of every family in this state.

In the area of agriculture:

My proposal sets aside \$4 million in bonds for the design, planning and purchase of land for the Breathitt Veterinary Center in Hopkinsville, which has been identified by the agriculture community as its highest priority.

Our animal diagnostic labs need the capability to keep up with modern technologies and the future demands of a global market focused on animal and food security.

In the area of parks and tourism:

The 8.4 percent cuts imposed by this budget will have deep impact.

Over the past four years, we have reduced the hours at some of our parks, we've closed some of our locations during the winter and we've neglected needed improvements.

We will do everything we can to keep them operating at some level over the next two years, but it will be a difficult task.

In the area of energy and environment:

My proposal recognizes the importance of coal to our economy – both as an energy source and as a job provider – by making limited or no reductions in mine permitting, enforcement, safety and licensing.

We must preserve our ability to mine coal and to do it cleanly and safely.

For public employees and retirees:

This budget has both good news and bad news.

My proposal does not include money for pay raises for the fourth year in a row. I regret that.

I'm also aware that limited layoffs are possible, depending upon how our cabinets manage their reduced budgets.

But my budget does not propose furloughs of state workers, which we were forced to implement last year and which many states are still doing.

My budget also, for the second time in a row, fully funds the recommended House Bill 1 increase in employer contribution rates for our retirement systems.

This keeps us on the path of bringing stability to these funds and protecting the retirement of our dedicated public employees.

In the area of capital improvements:

I am proposing a limited bond program totaling \$778 million.

Of that figure, only \$304 million are General Fund bonds, with most of the rest being Agency Fund bonds.

Of the \$304 million, nearly a third is for improvements to K-12 school facilities.

We are also setting aside \$3.5 million in bonds – to be matched by \$1.5 million from the City of Lexington – for planning and redesign of a significant part of that city's downtown, including Rupp Arena.

Just as we did successfully in Louisville, we will partner with Lexington to add vibrancy to an area that attracts jobs and business investment.

In addition to projects I've previously mentioned tonight, General Fund bonds will also help put into place the state's new on-line One-Stop Business Portal passed by the General Assembly last year ... and implement the final closure plan for Maxey Flats, the radioactive Superfund site northwest of Morehead.

But let me tell you: Collectively, this is the *smallest* capital program since 1996, including the smallest supported by the General Fund.

This is not a boast; it's just a fact.

We simply do not have the money to pay off more debt.

And this lack of investment will have ramifications on our ability to attract businesses, to grow our communities and to improve the quality of life for our people.

Finally, let me talk about transportation.

The Road Fund is where we see good news.

For the fourth and fifth years in a row, we expect growth in revenues.

In year one of the biennium, state Road Fund revenues are expected to increase 6.1 percent; in year two, 4.6 percent.

This will enable us to increase revenue sharing with local governments, as well as to create a Six-Year Highway Plan that aggressively invests in Kentucky's primary road system.

There of course remains great uncertainty about what will come from Washington as Congress continues its habit of last-minute decision-making on a federal highway program.

We have to assume that Congress will address the problem of the Federal Highway Trust Fund ... because if not, the impact on not just Kentucky but the whole nation would be devastating.

Our transportation strategy focuses on improvements that boost interstate commerce and create an enhanced economic climate for existing and future employers.

This six-year plan:

- Funds the Louisville Bridges Project.
- Completes the six-laning of I-65 between Bowling Green and Elizabethtown.
- Completes the final leg of a 25-year widening of the U.S. 68/Ky. 80 corridor between Bowling Green and Mayfield, including the bridges over Lake Barkley and Kentucky Lake.
- Advances the Interstate 69 project in West Kentucky by enabling the ultimate conversion of many more miles of parkway to interstate status.
- Provides about \$80 million toward the four-laning of the Mountain Parkway between Campton and Salyersville.
- Widens a stretch of Ky. 15 in Perry County near the Hazard bypass.
- Completes the construction of U.S. 460 in Pike County between U.S. 23 and the Virginia state line.
- Completes the construction of U.S. 119 in Letcher County between Partridge and Oven Fork.
- Completes the Newtown Pike Extension Project in downtown Lexington.
- Constructs new I-75 interchanges in Boone County and builds a new frontage road system between Mount Zion and Richwood roads.
- Spends over \$500 million to repair or replace more than 240 substandard bridges across the Commonwealth.
- And dedicates over \$100 million a year to pavement repairs on primary roads.

These are aggressive investments in our transportation network, and they will have tangible positive impact on our communities – both in immediate construction jobs and in long-term economic potential.

We should be investing this aggressively in other sectors of our state, especially in our intellectual capacity.

But we simply don't have the resources to do that.

And that's what I want to talk about now.

To keep Kentucky's budget balanced over the last four years, we have cut spending by \$1.3 billion.

With this budget proposal, that figure reaches \$1.6 billion.

Now, many of those reductions were needed, because state government had become bloated ... and some people had forgotten the sanctity of the taxpayer's money.

But we're at the point where drastic cuts will do more damage to Kentucky's long-term future than realized savings will help.

There are those who continue to insist that Kentucky can cut its way to prosperity. If that were the case ... we'd all be wealthy.

No, continued slashing isn't the answer.

We need to take steps to ensure that we have adequate revenue to meet our needs.

Two options – expanded gaming and tax reform – are before us right now.

Last week I announced plans to create a Blue Ribbon Commission headed by Lt. Gov. Abramson to begin looking at Kentucky's tax system to see how we can better align it with the principles of fairness, business competitiveness and a 21st Century economy.

Over the next several months, this commission will examine other tax systems and hear from experts, as well as the public and various stakeholders throughout Kentucky.

Continuous input from the General Assembly will be essential to the success of this effort.

I hope to have recommendations to propose to you before the end of this year.

The other option – expanded gaming – will come before you this session.

You will be asked to place a Constitutional Amendment allowing expanded gaming on the ballot.

You've heard a lot of arguments about why gaming is or isn't right for Kentucky.

But you haven't heard a *single* argument as to why Kentuckians shouldn't be allowed to *vote* on this proposal.

In fact, I don't think there is a legitimate argument.

Kentuckians have made it clear through numerous surveys that they want to vote.

The only question is whether we listen to them, or we ignore them.

Gaming isn't an end unto itself. It's a mechanism to keep our Kentucky money at home.

An economic analysis just released estimates that, in 2010, Kentuckians spent \$451 million on casino gaming in our neighboring states.

These states are enhancing their budgets with hundreds of millions of dollars they rake in by taxing this Kentucky money.

And they know it.

One Indiana casino has billboards in Louisville that boldly proclaims itself as the place “where Kentucky gambles.”

My friends, they're advertising in our own front yard.

We need to keep our money in our own state.

That same analysis estimates that, under one scenario, expanding gaming at our tracks alone would bring in one-time license fees of \$266 million and \$377 million annually into the General Fund.

These are conservative estimates.

I did not build any of those projections into this budget proposal.

But just think of what that money could do for Kentucky.

With \$266 million in one-time license fees, we could:

- Rebuild or repair a good number of our most rundown schools.
- Or we could make a large deposit to the retirement system to help pay down the unfunded liability.

Just think of what we could do with an influx of annual tax receipts of \$377 million:

- We could restore SEEK funding to 2012 per-pupil levels.
- Or we could help our universities lower the cost of tuition, providing better access to college degrees.
- Or raise teacher pay.
- Or provide full-day kindergarten to all children.
- Or better fund programs that serve a growing elderly population.

It is time to let our people decide whether they want that Kentucky money to continue to flow across our borders or to stay here at home.

So there you have it – my two-year budget – a practical, responsible strategy that helps this state survive and moves it forward.

But not far enough, and not fast enough.

We could – and we should – be doing more.

Future budgets do not have to look like this one.

Future budgets -- with additional revenue – could help us more aggressively attack the fundamental weaknesses that are holding Kentucky back.

I stand ready to work with you to improve our resources by keeping gaming revenue in Kentucky and by improving our tax structure.

And I stand ready to work with you to implement the many parts of this budget.

By expanding access to early childhood education ... by improving protections for our most vulnerable populations ... and by getting serious about prescription drug abuse, we can improve the quality of life of our people.

Likewise, with the Graduation Bill, and bills to improve kindergarten readiness and our Career and Technical Education, we have the opportunity in this legislative session to improve Kentucky's workforce, the core of our economic strength.

Together, we *can* build a better Kentucky, right now and long into the future.

Thank you, and God bless Kentucky.

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